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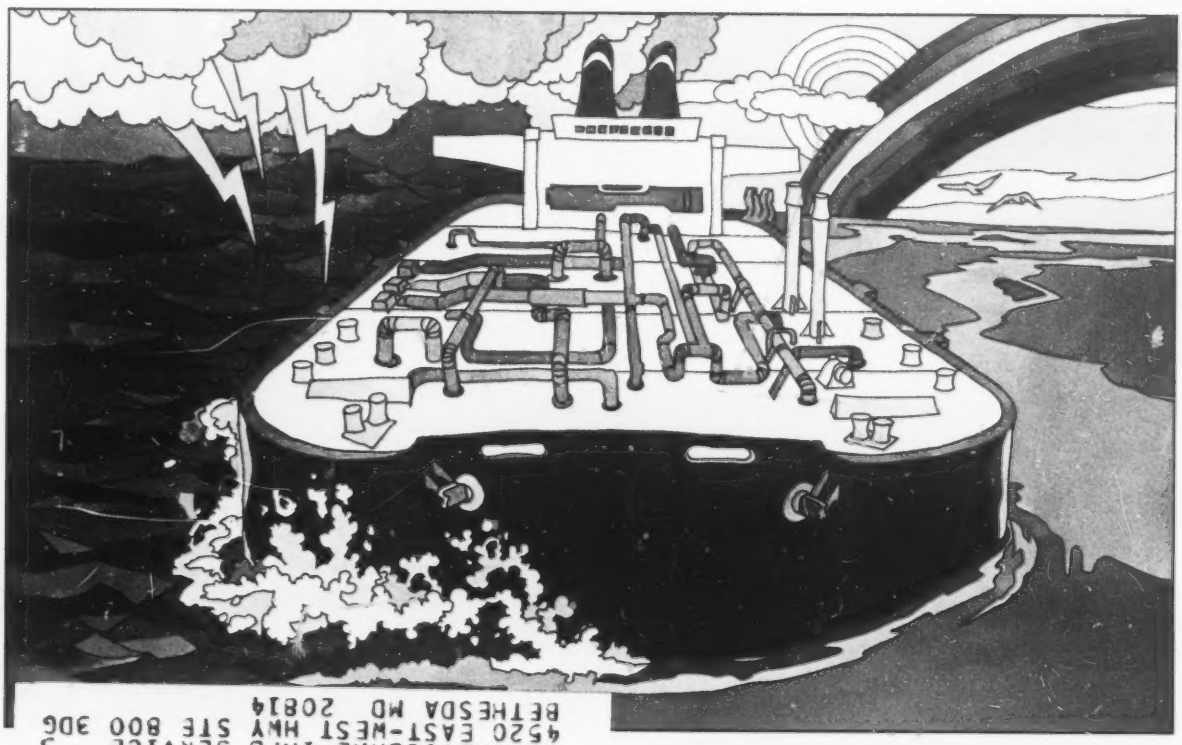
Why an Oil Patch Jobber Turned to C-stores
Trends: Will Blending Pumps Ease Tank Woes?
Why Keller Oil Likes New, Old Strategies

NPN
National Petroleum News

OUTLOOK '87 "IFFY"



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NATIONAL PETROLEUM NEWS

JANUARY 1987 VOL. 79 NO. 1

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January is the time for both resolutions and forecasts. This year is no exception. While most forecasts point to another lackluster year for oil marketers, OPEC could prove otherwise. **Page 32**

For the Keller family of Central Illinois, petroleum marketing has been a way of life for two generations. Here's a look at how this family operation has blended traditional business practices with marketing techniques like C-stores. **Page 42**

How does a marketer serving the hard-hit offshore production industry cope with the current industry downturn? By branching out into C-stores and other less traditional efforts. **Page 46**

• TRENDS

Blender/dispensers: Will They Ease Tank Worries?

Something that's been around for more than three decades is suddenly showing promise of being the answer to a maiden's prayer in enabling gasoline marketers to cope with some of the nightmares associated with underground storage tanks and liability insurance costs.

Listen close because there's more to it than meets the eye at first glance. It is glimmering on the horizon only because of a combination of circumstances and events over and above the razzle-dazzle of electronics, POS items, debit cards and so on.

Back in the mid-1950s, Sun introduced a blender/dispenser which gave motorists an option on octane numbers, from the economy grade to super-premium, simply by turning a dial on the face of the pump.

Eventually, the dial gave way to a lever and, in more recent times, to digital push buttons.

But the fundamentals are still the same: Only two underground storage tanks are involved, one containing the low-octane economy grade and the other the highest octane available.

Two hoses enclosed in an outside shell carry the gasolines from each tank to the nozzle, where the blending is done electronically at the blink of an eye to the prescribed number.

Sun, at various times through the years, has marketed as many as eight intermediate octane numbers from a single pump and one hose. It long ago proved the concept is viable and acceptable to motorists.

But conditions have changed dramatically in gasoline marketing in recent years.

Underground storage tanks have suddenly become environmental menaces with all sorts of expensive and restrictive regulations being imposed at local, state, regional and national levels, and more yet to come. Liability insurance costs have skyrocketed and in many cases policies are either unattainable or unaffordable.

Traditional gasoline marketing has more or less dictated the need for three to five storage tanks per station and almost as many dispensers—for subregular, regular, premium and super-premium grades, and perhaps diesel fuel and/or kerosine, as well.

The transition to unleaded gasolines, which began in the mid-'70s, and the diesel skyrocket that went up in the early '80s, extended most of these requirements with separate dispensers and tanks for the leaded and unleaded grades and the other products.

Diesel has pretty well come and gone except for the truck stops. Leaded premium vanished first, and leaded regular is on the way out now. It looks like leaded regular will be out of contention by 1989, except for specialty product stations. Demand will be down to about 10% by then. The all-unleaded economy is rapidly coming of age. Some suppliers have already dropped leaded gasoline in selected marketplaces and it can be anticipated that this trend will accelerate this year and next.

This makes the potential of the blender/dispenser suddenly impressive.

Marketers, for example, could get by with two storage tanks instead of three or four, thereby halving their environmental problems, responsibilities and fears, as well as their insurance costs since the liability exposure would be reduced proportionately.

Since one blender/dispenser with two hoses could service both sides of an island, would there be a need for two or three dispensers per island anymore?

This is downright heresy where equipment manufacturers are concerned because only one or two are offering this sort of product now. But if the marketing emphasis shifts, they can quickly adapt to the new concept. They've been doing that right along. Competition, like necessity, is also the mother of invention.

The idea isn't necessarily a quick fix for gasoline marketing. The blender/dispensers are more expensive than conventional pumps for one thing. There is also the need to dig up or abandon tanks, redesign islands, etc. For ground-up stations, however, they should be a natural. But bottom-line economics will be the telling factor in the long run. That's the way the gasoline business operates.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

OCTOBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$ .837	$ .771	$ .831	$ .987
Regions:				
Northeast	.853	.779	.828	.986
North Central	.828	.780	.830	.983
South	.821	.746	.814	.977
West	.853	.786	.851	1.009

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	11/28/86	11/29/85
Gasoline (Total)	224,507	213,426
Gasoline (Unleaded)*	122,681	106,294
Jet Kerosine	41,875	38,022
Distillates	147,520	135,856
Residual	46,460	46,885

**Included in gasoline total.*
Source: American Petroleum Institute.

Lube Sales Show Marginal Increase; Multigrades Stay Strong—NPRA Study

Lubricant sales rose fractionally in 1985, National Petroleum Refiners Assn. says in its latest annual study released in October.

The increase amounted to a mere 5 million gal. out of a total of 2.3 billion gal. for the year. This was an increase of 0.2% over 1984, hardly enough for a statistician to notice.

This total embraces all engine oils, including transmission and hydraulic oils, gear oils and grease. The latter, normally a solid, was converted to gallons by assigning a ratio of 1 gal. for each 7.5 lbs.

Consumption of conventional motor oils, i.e., those used primarily in passenger car engines, slipped slightly in 1985—about 9 million gal. out of a total of 1.1 billion gal. The 1984 demand, for the record, was 1,093 million gal., while for 1985 it was 1,084 million gal.

There were no changes of significance in the channels of distribution, the NPRA report says. A little more than half of all motor oil sales continue to be made through the retail segment—service stations, mass merchandisers, discount houses and the like. Commercial sales, that is those for fleets, farms and government, continue to take about one-third of the output.

Among the more interesting facets of the 1985 report are the tables dealing with multigrade and monograde consumption patterns.

In 1982, for example, 55.5% of the motor oil purchases were for monogrades. By the end of 1985, that figure had eroded to 35.3%—20 full percentage points.

There was a small upward movement in the multigrade purchase patterns in the retail segment. These moved from 69.1% in 1982 to 74.7% in 1985. More strikingly, the commercial area sales indicate the tide is running strongly toward multigrades and away from monogrades. In 1982, 65.4% of the commercial purchases represented monogrades. Last year, they had dropped to 53.9%.

The peak year for lubricant sales was 1979. The total was 2.5 billion gal., 6.6% more than the 1985 figure. Grease sales were higher in 1979, too—8 million gal. more, or a difference of 11.8%.

Copies of the NPRA report may be obtained by contacting NPRA's headquarters in Washington, D.C. NPN

Lube Oil Sales in the U.S.*

	(mil. gal.)					% Chng.	% Chng.
	1985	1984	1983	1982	1979	'85 v. '84	'85 v. '79
					(Peak Yr.)		
All oils	2,272	2,271	2,114	1,198	2,435	0.3%	(6.5%)
Grease**	60	61	55	57	68	(1.6)	(11.8)
Total Lubes	2,337	2,332	2,119	2,049	2,503	0.2	(6.6)

*Includes automotive and industrial oils, but not aromatics or waxes;
**conversion rate 7.5 lb = 1 gal.

Channels of Distribution: Automotive Oils Only[1]

	1985	1984	1983	1982
Total Vol. (mil. gal.)	1,364	1,376	1,278	1,204
Retail[2]	52%	55%	55%	53%
Commercial[3]	35%	36%	37%	36%
Factory Fill	3%	4%	3%	4%
Undistrib.	10%	5%	5%	7%

[1]Includes engine oils, transmission and hydraulic fluids, and gear oils.
[2]Retail means oils sold through service stations and other retail outlets such as auto parts stores, car dealers, truck stops, chain stores, drug stores, discount stores, etc.;
[3]Commercial means oils sold to commercial accounts such as industrial plants, fleets, farm, government, etc.

Engine Oils Only: Multigrades vs Monogrades*

	Liquid Vol.	Multigrade	Monograde
	(mil. gal.)	(by percentage)	
1985	1,084	64.7%	35.3%
Retail	611	74.7%	25.3%
Commercial	374	46.1%	53.9%
1984	1,093	61.6%	38.4%
Retail	654	73.1%	26.9%
Commercial	392	41.1%	58.9%
1983	1,019	58.2%	41.8%
Retail	610	71.0%	39.0%
Commercial	371	37.6%	62.4%
1982	957	44.5%	55.5%
Retail	555	69.1%	30.9%
Commercial	352	34.6%	65.4%

*SAE J-183a only; data on factory fills and undistributed not significant in this table.
Source: National Petroleum Refiners Assn., 1985 Report on U.S. Lubricating Oil Sales, published October 1986.

Jiffy Lube Strengthening Market Share in S.W.

Jiffy Lube International, Inc. is expanding its franchise system in the Southwest with transactions that could provide the company with 53 quick lube sites in Missouri, Oklahoma, Texas and New Mexico.

W.J. Hindman, Jiffy Lube chairman and CEO, says the company has purchased Rapid Lube & Oil Inc. of Tulsa, Oklahoma, which operated six oil change centers in Tulsa and two in Kansas City.

Jiffy Lube also has agreed in principle with Kwik Change Oil Co. of Lubbock, Texas, to enter into an option agreement for the purchase of 13 sites in Texas and the franchise rights to another 13 centers in Texas and New Mexico, the company says.

In addition, Jiffy Lube says it has acquired the option to repurchase the franchise rights to eight Dallas centers from a franchisee.

If all of the transactions are completed, Jiffy Lube will have invested more than $10 million to develop these markets, the company says.

Jiffy Lube claims to be the largest operator and franchisor of quick lube centers in North America, with 422 centers operating coast to coast. NPN

Colorado Marketers May Be Forced To Blend MTBE or Ethanol in Winter

Jobbers in Colorado's four largest markets face the possibility of being forced to blend MTBE or ethanol into their gasoline during the winter months in an effort to meet Clean Air Act guidelines.

The state's Air Quality Control Commission is considering a proposal that would require oxygen levels of 2% in motor fuels by November 1988, and oxygen levels of 3.5% by November 1990.

Roy Turner, executive director of the Tri-State (Colorado, Wyoming, New Mexico) Petroleum Marketers Assn., says the proposal would affect gasoline outlets in Denver, Fort Collins, Greeley and Pueblo during the months of November through March.

Turner says these metropolitan areas are listed as non-attainment areas and are subject to a loss of federal highway funds.

He adds, the areas are subject to heat inversions in which the cold upper air traps pollution close to ground level. Adding oxygen to the gasoline decreases the carbon monoxide levels when the fuel is burned, Turner says.

Turner represented marketers on the governor's task force examining the pollution issue. He says marketers see problems with the blending proposal.

First, he says, there is a question of MTBE supplies. MTBE will add 2% more oxygen to gasoline, but marketers wonder if there will be enough immediately available if the proposal is passed, Turner says.

Then there is pricing. Turner says Denver County is a non-attainment area, but a neighboring county is not. The forced blending of MTBE or ethanol could raise the street price of gasoline by 4¢-5¢ gal., he says, while across the street in an unaffected area, prices would be lower.

A third area of concern for jobbers is what happens when the 3.5% oxygen level takes effect. Turner says U.S. Environmental Protection Agency waivers only allow MTBE to be blended up to a 2% level. Requiring a 3.5% oxygen level would require blending ethanol, he says.

Ethanol and MTBE, however, cannot be blended into the same gasoline, Turner says. That means jobbers previously blending MTBE to reach the 2% oxygen level would have to find a supply of product without it.

Compounding this problem, Turner says, is the fact that more suppliers are using MTBE as an octane enhancer as EPA phases out lead from gasoline.

Colorado dropped its 5¢ gal. tax exemption on alcohol-blended fuels in June 1986. Turner says several large marketers in the state soon after began advertising the point that their product contains no ethanol, and questions if consumers would accept ethanol blends.

The Colorado Air Quality Control Commission is expected to reach a decision in March. NPN

State Motor Fuel Tax Rates

(cents per gal.)

State	Gasoline	Diesel	Gasohol	Added Tax (%)	Local Option
Alabama	13	14	10		yes
Alaska	8	8	0		
Arizona	16	16	16		
Arkansas	13.5	12.5	13.5		
California	9	9	9	6	yes
Colorado	18	20.5	18		
Connecticut	17	17	16	2	
Delaware	13	13	13		
Dist. of Col.	15.5	15.5	15.5		
Florida*	9.7	9.7	7.7		yes
Georgia	7.5	7.5	7.5	3	
Hawaii	11	11	11	4	yes
Idaho	14.5	14.5	10.5		
Illinois	13	15.5	13	6	yes
Indiana	14	15	14	5	
Iowa	16	17.5	15		
Kansas*	11	13	8		
Kentucky*	15	12	15		
Louisiana	16	16	16	1	
Maine	14	14	10		
Maryland*	13.5	13.5	13.5		
Massachusetts*	11	11	11		
Michigan*	15	15	15	4	
Minnesota	17	17	14.5		
Mississippi	9	10	9	6	yes
Missouri	7	7	7		
Montana	17	17	17		
Nebraska*	17.1	17.1	14.1		
Nevada	13	13	12		yes
New Hampshire	14	14	14		
New Jersey	8	11	0		
New Mexico	11	11	0		
New York	8	10	8	6.75	yes
North Carolina*	15.75	15.75	15.75		
North Dakota	13	13	5		
Ohio	12	12	12		
Oklahoma	10	10	10		
Oregon	12	11	12		yes
Pennsylvania	12	12	12	6	
Rhode Island*	15	15	15		
South Carolina	13	13	7		
South Dakota	13	13	11		yes
Tennessee	17	15	13		yes
Texas**	15	10	5		
Utah	14	14	14		
Vermont	13	14	13		
Virginia	17.5	15	15		yes
Washington	18	18	16.2		
West Virginia*	15.35	15.35	15.35		
Wisconsin*	17.5	17.5	17.5		
Wyoming	8	8	8		
Average Gasoline Tax	**13.26**				

* Variable tax expressed in cents per gal.
**Unless Texas legislature takes action, tax will drop to 10¢ gal. on Sept. 1.
Source: Highway Users Federation, rates effective January 1, 1987.
Note: Federal Excise Tax on gasoline is an additional 9¢ gal.

The 1987 Outlook: Will OPEC Unrest Upend Routine Industry Forecasts?

Most industry, business and government forecasters anticipate a predictable, prosaic year for oil marketers in 1987, but there's a real cliffhanger out there that could change everything and impact heavily on supplies, prices and profits by late summer or early fall.

The big question mark as the new year gets underway is whether OPEC can come to terms with itself, reach a cartel consensus in the next month or two and really make it stick this time. If it does, all bets are off.

The big difference in January 1987 is the emergence of a militant Iran as the power broker in the Middle East, replacing the more moderate Saudi Arabia with a contentious, beleaguered regime whose instability and hysterical, anti-American madnesses are known around the world.

But OPEC has compiled, since the bottom began falling out several years ago, a poor track record for coordination and cooperation on anything. Its members have repeatedly undercut each other on prices, production quotas and just about every scheme the ministers could plan or plot to halt the erosion of their hold on crude marketplaces and their loss of dominance internationally.

By J. Richard Shaner
Executive Editor

When the Saudis bounced their longtime oil minister, Shaikh Ahmed Zaki Yamani, in October, and the Royal Family positioned itself with Iran's minimum price arguments and a return to 1984 quotas, the possibility that this may have been a turning point and that economic realities will be the governing factors this time around, make the Mid-East picture a bit more ominous than usual.

There also is much speculation that if Iran should suddenly win its war with Iraq or negotiate an ending, it could then swing its weight like a meat axe [*NPN*—Dec. '86, p23]. Most of the oil-producing nations in the Mid-East actually fear the violent Iranians and worry whether they might be the next targets of their wrath. On the other hand, if OPEC's members continue to do as they have been doing in recent years, their rantings and "salvation" proposals will have little impact on actual market conditions. The key point at this time, is that there is still much oversupply to be eaten up, so there are no shortage conditions in sight for 1987. It'll be springtime before marketers have a good fix on this, however.

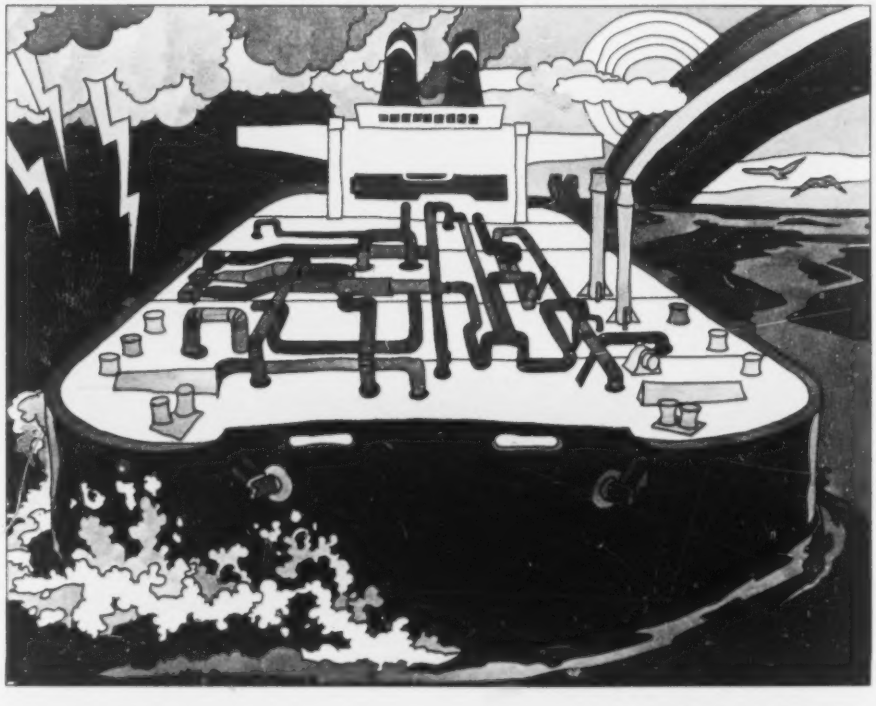
Otherwise, government and industry forecasters are generally agreed on what happened in 1986 and what's likely to happen in 1987 (See tables on Pages 35 and 38).

In substance, what they say is that the year just ended was up a surprising 2% to 3% over 1985, and the year coming up will be only slightly better, a skinny 1% with prices edging upwards, margins holding firm and the overall outlook, well just bland, that's all.

The government projections are based on $17 bbl. crude at the end of 1987. This would be an increase of $5 bbl. over the tailend of 1986, but still $2 bbl. below the $19 bbl. that prevailed at the beginning of last year. If crude prices suddenly spurt into the $25 bbl. range, look for "buck-a-gallon-plus" gasoline almost in lockstep.

Billions for Marketing

An encouraging factor for marketers in 1987 is McGraw-Hill's annual survey of planned capital expenditures, which indicates that the marketing segment will continue to get a high level of dollar transfusions despite the horrendous cutbacks in exploration, production and elsewhere, including the restructuring of managements and sharp personnel reductions (See table on Page 40).



The McGraw-Hill forecast, put together this year by its Data Resources, Inc. subsidiary instead of its inhouse Economics Department, projects capital investments in the marketing segment of $3.88 billion in 1987 and $3.93 billion in 1988, on top of $3.52 billion in 1986.

The forecasts for 1986 and 1987 are only 11% and 3% below the pre-collapse projections made last year [*NPN*—Feb. '86, p29]. It was to be expected, of course, that 1986's retrenchments would be relatively sharp. But against those, are the twin facts that the 1986 marketing spending was a good round $3.53 billion and that 1987, at $3.88 billion, reflects an increase of 10% over 1986.

These billions of dollars are changing the face and dynamics of oil marketing—the modernization programs, new and bigger gasoline stations and C-stores, electronics, computerization and point-of-sale (POS) equipment, soaring real estate costs and the like.

Marketing broke into the $3 billion a year class in 1984. Thus the five-year span of actual, estimated and planned spending on marketing facilities in 1984 through 1988 totals more than $18 billion. In light of the fact that less than a decade ago, marketing had yet to see as much as $1 billion spent in any one year, this remarkable achievement emphasizes the latter-day concept that downstream, as well as upstream, must produce profits for the corporation. That the investments have been wise is attested to by the fact that virtually all of the big oil companies note in their quarterly reports that downstream profits are contributing significantly to, and/or sometimes bailing out, the corporate nets.

For the industry as a whole, McGraw-Hill anticipated spending of $34.5 billion in 1986, down 30% from the preceding year; $33.3 billion in 1987; and $30.2 billion in 1988. That's about what the oil companies used to spend on exploration and production alone, before the roof fell in.

McGraw-Hill makes its survey in the fall—generally mid-September to mid-October—via questionnaires mailed to approximately 800 to 1,000 small, medium and large corporations on spending plans for plans and equipment, and squares its conclusions with government and financial data.

1986-87 Overviews

Here, in a nutshell, are highlights of the government-industry forecasts:

Unease Over Coming Year Clouds Marketer Ranks

Aside from what all experts might be forecasting, the front line troops of the petroleum marketing industry generally say they have a gut feeling that 1987 is going to be a highly competitive one. Possibly dramatic changes in the crude oil supply and price picture could add even greater volatility to the marketplace, some believe.

A general feeling of unease about the coming year seemed to hang over recent autumn industry conventions. These included the Petroleum Marketers Assn. of America (PMAA), the Society of Independent Gasoline Marketers of America (SIGMA), the American Petroleum Institute (API) and the National Assn. of Convenience Stores (NACS).

Branded and unbranded independent gasoline marketer members at the PMAA and SIGMA conventions generally said they could hardly expect 1987 to match 1986 insofar as average margins are concerned.

There were unusual conditions in early 1986 which resulted in the kind of margins gasoline marketers dream about, but rarely experience. When crude oil prices went into a free fall beginning about a year ago, there were brief periods of very good profit margins at both the wholesale and retail price levels.

Those conditions were pretty well gone by late 1986, however, and marketers at the fall conventions were once again talking about some rock-bottom situations.

"It's back to where you can't figure out how some of your competition can sell so low," said the gasoline manager of one large C-store chain at SIGMA's meeting in Houston. At the time, two of his competitors were posting 59.9¢ gal. for leaded regular and 67.9¢ for diesel. The retail gasoline price was several cents below the cheapest wholesale price he could find, said this marketer, while the diesel posting

(Continued on following page.)

DEMAND

Total demand—At 16.2 million b/d in 1986, up 2.6% to the highest level of consumption since 1980; at 16.4 million b/d in 1987, up another 1.2%. The peak year for demand was 1978, when it zipped along at the 20 million b/d level.

Motor gasoline—Slight differences between government and industry. Government says 7.02 million b/d in 1986, up 2.8% over 1985, and 7.0 million b/d in 1987, down 0.3%. Industry says 7.0 million b/d in 1986, up 2.4% in '85, and 7.1 million b/d in '87, up 1.0%. By way of contrast, peak gasoline demand occurred in 1978, when it averaged 7.4 million b/d. Until 1986, it hadn't been over the 7 million b/d level since 1979. In July of 1986, riding the crest of a surprising 5% increase in highway travel, it shot up to an average of 7.5 million b/d.

Distillates—Up slightly in 1986, about 1%. Industry sees 3% increase in 1987, but government says 4.5%. Both, however, agree that diesel and industrial activity will account for most of the gains, not space heating.

Residual—Up sharply in 1986, but flattening out to minus signs in 1987.

PRICES

Motor Gasoline—Will average out to 94.0¢ gal. in 1986 and 97.8¢ gal. this year (including taxes) for all grades and services. Federal forecasters say it'll average 90.0¢ to 97.0¢ in the first half and $1.02 in the third and fourth quarters, including taxes.

Diesel Fuel—A year-long average of 87¢ gal. in '86 and 91.3¢ gal. in '87. First half will range from 86¢ to 89¢ and second half, 93¢ to 97¢. Taxes are included.

No. 2 Heating Oil—On a year-long basis (taxes excluded), wholesales will average 47¢ gal. and 51¢ gal. in 1986 and 1987, respectively, compared with 78¢ gal. in 1985. Retails will average 77¢ gal. and 80¢ gal. last year and this year, respectively, versus $1.05 in 1985. On a quarterly basis, wholesales will start out at 48¢ gal. this month and edge up to 55¢ gal. by the fourth quarter, while retails will start out at 75¢ gal. in the first quarter and wind up the year at 87¢ gal. This means that wholesales will be up 11¢ gal. and retails 19¢ gal. in the last quarter of this year, versus the last quarter of 1986.

Residual—An average of 35.8¢ gal. for 1986 and 41¢ gal. for 1987. The fore-

Marketing expenditures should increase 10% this year.

Marketer Worries, Continued . . .

was 2¢ to 3¢ gal. over his buying price.

F.C. (Tally) Roberts of Acme Retail Inc., Gastonia, N.C., said retail prices in some markets of the always tough Carolinas by mid-November were running 3¢ to 8¢ gal. below cost for leaded regular. To make matters worse, Roberts added, some marketers were beginning to lower their unleaded retail postings. "For awhile, we were just giving leaded away. Now, some are beginning to take the top two grades (of unleaded) down so we have nothing left."

Roberts sees 1987 as shaping up "worse than 1986."

Marketers at PMAA's meeting in Denver seemed to be a little less pessimistic about the outlook for the year. They were still aglow over what, for most, had been a very profitable year, and a few here and there even said they were still enjoying rack-to-retail margins as high as 15¢ gal. Other members from tough markets like Houston, however, can only dream of such high markups.

Here's how Nelson Rusche, a large gasoline/car wash/C-store marketer, describes the situation in that city:

"The market has been poor for jobbers here in Houston in 1986. Margins are not worth a damn. Unfortunately, I don't see any light at the end of the tunnel. Usually, there's some blue sky somewhere, some aspect of your business that looks promising or hopeful. But I don't see any bright spots right now. Part of this, of course, is due to the region's economic situation. Our economic problems in Texas are monumental.

"I expect the situation to get worse in 1987—margins, profits, competition. The squeeze on margins is terrific. Currently, we're making 0.9¢ gal. margin above our cost on super unleaded. It costs 1.5¢ gal. to haul the product.

"The days when a marketer could make it on gasoline alone are over. Now, you have to diversify to survive, couple your gasoline with other profit centers—fast food, car washes, automotive service, etc.

"We need a return to adequate functional discounts from suppliers, to get margins back to where they should be. We can't keep subsidizing the majors' gasoline sales.

"I expect to lose about $100,000 a year in tax float when the new excise tax rules take effect."

Retailers who started out in the convenience food store business and then added gasoline tend to see the coming year pretty much like gasoline marketers do, according to interviews with several at the NACS convention in New Orleans in early October.

Like some branded distributors at PMAA's meeting, there were C-store operators in New Orleans still talking about the nice 15¢ to 20¢ gal. margins they enjoyed earlier in the year. Most were like a Virginia store operator, though, who said he had seen his margins drop from that level down to around 4¢ or 5¢ gal.

Some at the NACS convention, though, said they don't really rely on gasoline that much for profits. For these, the self-serve gasoline pumps have served their purpose if they cover some of their operating costs and pull more traffic into their stores.

At the same time, some of the larger C-store chains continue to increase their investments in both their stores and gasoline facilities. Most of these are trying to move from secondary to prime locations and complain that "the petroleum guys have (most of) the prime locations locked up."

But just like the gasoline marketers, some C-store chains in depressed markets have been having a tough time and they see a tough 1987 ahead.

In Houston, V.H. Van Horn, president and chief executive of National Convenience Stores (NCS), finds that city's depressed economy just as bad for his Stop 'N Go stores as Nelson Rusche does. NCS had enjoyed 38 consecutive quarters or record earnings through 1984 before its earnings curve began a downward plunge in early 1985. Since then, it has had to sell off some stores, close others, restructure its organization to reduce costs and adopt new marketing strategies.

Van Horn thinks the company is well on its way toward recovery now, and it's investing millions in what it calls its new "hex" design store. These stores are designed to appeal to a broader range of customers and, among other things, have average gasoline sales of 100,000 gal./month or more.

But increased sales for the NCS stores in Houston and other parts of that state won't come easy, Van Horn says, because he doesn't see much recovery in the economy in the city or state in 1987. NEW

cast indicates the price will range from 38¢ gal. to 41¢ gal. in the current year.

Problems Galore in '87

Leaded gasolines are fading from the domestic marketing scene and some companies have already dropped them entirely in selected marketplaces. The decline rate has been increasing in increments of five percentage points per year. By the end of 1987, leaded gasolines are expected to command only 25% of the nationwide market.

This transition has precipitated the introduction of a new mid-grade unleaded at 89-octane as a replacement for the vanishing 89 leaded gasoline. This can be considered the forerunner of an all-unleaded economy with octanes of 87 for regular, 89 for mid-grade, and 92 to 93 and up for premiums.

On the horizon, too, is the probability that many retailers may shift over to multigrade dispensers which, like the ones Sun has been using for years, enable them to achieve a variety of octane levels by push-button mixing at the nozzle. It makes much sense because, with leaded approaching oblivion and diesel almost gone and forgotten at conventional stations, there'll be a basic need for only two storage tanks instead of today's three or four. This is even more meaningful, in light of the spiraling costs of environmental regulations and insurance on underground tanks.

On the market already, are a variety of additives and enhancers to adapt unleaded gasolines to leaded needs for older vehicles and farm implements. In addition, there are concerns that the refiners' lead banks are running out faster than anticipated—they were supposed to last through 1987—so there's a reasonable likelihood that Environmental Protection Agency will issue its long awaited phasing-out date this year for all leaded gasolines except specialty products.

There will be no dearth of problems for oil marketers in 1987, among them the heightened pressures of insurance, underground storage tanks, imports, taxes, onboard canisters versus Stage II vapor recovery equipment, and the new war of words that burst out recently between the automobile manufacturers and the oil industry over the so-called "good" gasolines and those without a detergent or champion, to cite a few.

Imports could be major headaches on at least two fronts. With American production slumping and in sad disarray, imports

IPAA: '87 Will Be Better, But Not By Much

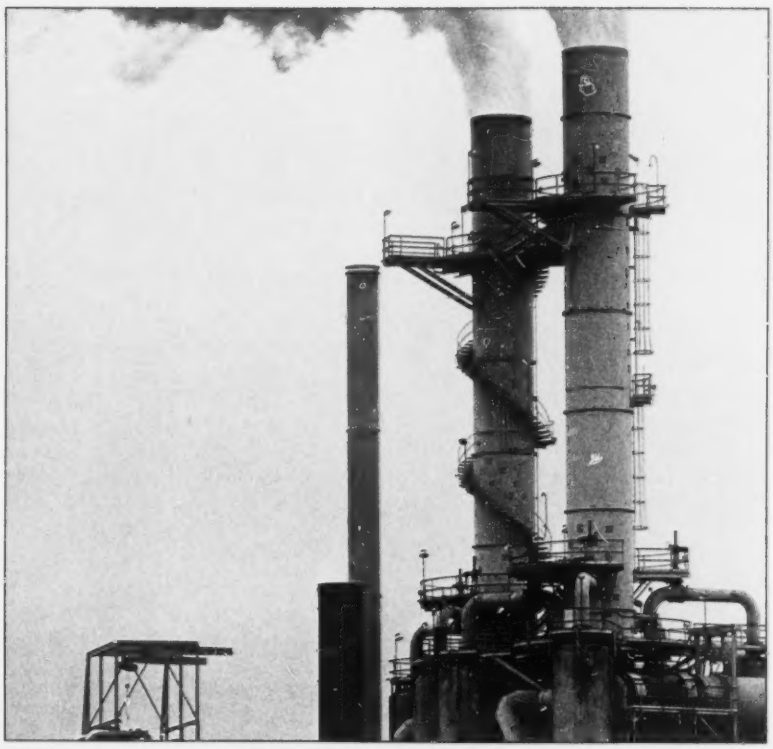
(Add 000 b/d except for closing stocks)

DEMAND	1st Q	1987 Forecast 2nd Q	3rd Q	4th Q	Est. 1987	Est. 1986	% Chg. 87/86	% Chg. 86/85
Domestic Products								
Motor Gasoline	6,719	7,198	7,303	7,057	7,069	6,996	1.0%	2.4%
Aviation Fuels	1,319	1,336	1,369	1,374	1,350	1,321	2.2	6.0
Middle Distillates	3,504	2,835	2,702	3,178	3,055	3,002	1.8	0.7
Residual Fuel Oil	1,420	1,246	1,234	1,301	1,300	1,380	(5.8)	14.8
Other Products	3,430	3,471	3,695	3,620	3,554	3,437	3.4	(0.8)
Domestic Demand	16,392	16,086	16,303	16,530	16,328	16,136	1.2	2.6
Exports	786	724	707	736	738	735	—	(6.1)
TOTAL DEMAND	**17,718**	**16,810**	**17,010**	**17,266**	**17,066**	**16,871**	**1.2**	**2.2**

SUPPLY								
Domestic Production								
Crude Oil	8,579	8,511	8,479	8,432	8,500	8,769	(3.1)	(2.3)
Natural Gas Liquids	1,630	1,561	1,565	1,589	1,586	1,603	(1.0)	(0.4)
Total Production	**10,209**	**10,072**	**10,044**	**10,021**	**10,086**	**10,372**	**(2.8)**	**(2.0)**
Imports								
Motor Gasoline	354	438	450	379	405	376	7.7	(16.1)
Aviation Fuels	44	60	57	56	54	52	3.8	33.3
Middle Distillates	249	194	204	303	238	231	3.0	11.1
Residual Fuel Oil	653	573	601	595	606	616	(1.6)	20.8
Other Products	586	637	621	620	615	630	(2.4)	(5.0)
Total Products	1,886	1,902	1,933	1,953	1,918	1,905	(0.7)	2.0
Crude Oil Imports	3,664	4,302	4,487	4,310	4,191	3,916	7.0	27.0
Total Imports	5,550	6,204	6,420	6,263	6,209	5,821	6.7	17.6
Other Supply	879	772	738	890	823	812	1.4	7.5
TOTAL SUPPLY	**16,638**	**17,048**	**17,202**	**17,174**	**17,018**	**17,005**	**—**	**4.4**
Refinery Inputs	12,628	13,212	13,357	13,221	13,105	13,091	—	5.3

INVENTORIES (Add 000,000 bbl.)								
Motor Gasoline	225.50	224.80	221.50	221.60	221.60	226.10	(2.0)	1.2
Aviation Fuels	48.50	47.50	47.80	45.80	45.80	46.80	(2.1)	9.9
Middle Distillates	108.60	116.20	138.40	144.70	144.70	150.60	(3.9)	(0.7)
Residual Fuel Oil	41.90	42.60	43.60	45.40	45.40	46.10	(1.5)	(13.0)
Other Products	267.90	287.20	286.00	269.80	269.80	275.80	(2.2)	17.0
Total Products	692.40	718.30	737.30	727.30	727.30	745.40	(2.4)	9.7
Crude Oil	333.50	329.30	328.00	329.50	329.50	329.10	—	3.3
TOTAL STOCKS	**1,025.90**	**1,047.60**	**1,065.30**	**1,056.80**	**1,056.80**	**1,074.50**	**(1.6)**	**5.0**

N.B. Strategic Petroleum Reserve data are excluded in this summary. Source: Independent Petroleum Assn. of America Supply and Demand Report, Oct. 25, 1986.



As imported crude oil takes up the slack left from slumping U.S. production, calls are being heard for import fees and floor prices for domestic crude.

are projected to take up much of the slack and propel the U.S. towards 40%-plus dependency on foreign oil for the second time in recent history. Pressures for and against a much-talked about $5 bbl. tax on imported oil are certain to fan these controversial issues throughout the year.

Crude oil production in the so-called "lower 48" fell to the level of the 1950s in October—about 6.7 million b/d. This was about 400,000 b/d below the like period of 1985.

The plight of U.S. production led Chevron Chairman George Keller, who also is chairman of American Petroleum Institute's board, to propose—at the API meeting in November, no less—that the government intervene and set a floor of $16 bbl. to $18 bbl. for domestic crude.

Petroleum Marketers Assn. of America Executive Vice President Phillip Chisholm immediately responded with a "no way" comment. He reminded marketers that "our industry emerged in 1981 from that type of regulation," and that "the

Federal Forecast: Deja Vu One More Time

	By the Year			
	History		Projections	
	1984	1985	1986	1987
DEMAND (million b/d)				
Motor Gasoline (total)	6.69	6.83	7.02	7.00
Leaded	2.78	2.43	2.17	1.79
Unleaded	3.99	4.41	4.85	5.21
% Unleaded vs. Leaded	59.6%	64.6%	69.1%	74.4%
Distillate Fuel Oil	2.84	2.87	2.90	3.03
Residual Fuel Oil	1.37	1.20	1.38	1.25
TOTAL U.S.	15.73	15.73	16.15	16.37
PRICES (per gal.)*				
Motor Gasoline**	$1.20	$1.20	$ .94	$ .96
No. 2 Diesel	1.15	1.15	.87	.91
No. 2 Heating Oil				
Wholesale	.83	.78	.47	.51
Retail	1.09	1.05	.77	.80
Residual***	.69	.61	.36	.39

*All prices include taxes except No. 2 heating oil. **Average for all grades and services. ***Average for all grades of sulfur.

same government that has the authority to set a minimum price (can also) set a maximum price as well." Ironically, the speaker who followed Keller at API—Mexico's highest petroleum official—criticized Keller's proposal and said his country would retaliate promptly. A Reagan Administration executive also took the occasion to affirm at the same time that the White House position is well-known and committed to free enterprise.

In Washington, a new ballgame is underway as Democrats took control of the Senate and installed a new committee chairman (See story on Page 23).

Among the national battles likely this year are the continuing threat of increased taxes, either in the form of an oil import fee or higher gasoline excise taxes as lawmakers search for any means available to reduce the enormous federal deficit; possible final underground storage tank and Stage II regulations; and the impending switch in motor fuel tax payment methods.

The decline in station population will continue, but at a slower rate.

Station Numbers, Sales Down in Forecast

Service station cashflows, which slumped badly and sadly in 1986, are expected to bounce back in 1987—but not enough to compensate for the nose dive in the year just ended.

A U.S. Commerce Department report that'll be published later this month will say that dollar sales for products and services at the outlets were down more than 10% in 1986 versus 1985, but that they'll recoup about half of that loss by next Dec. 31.

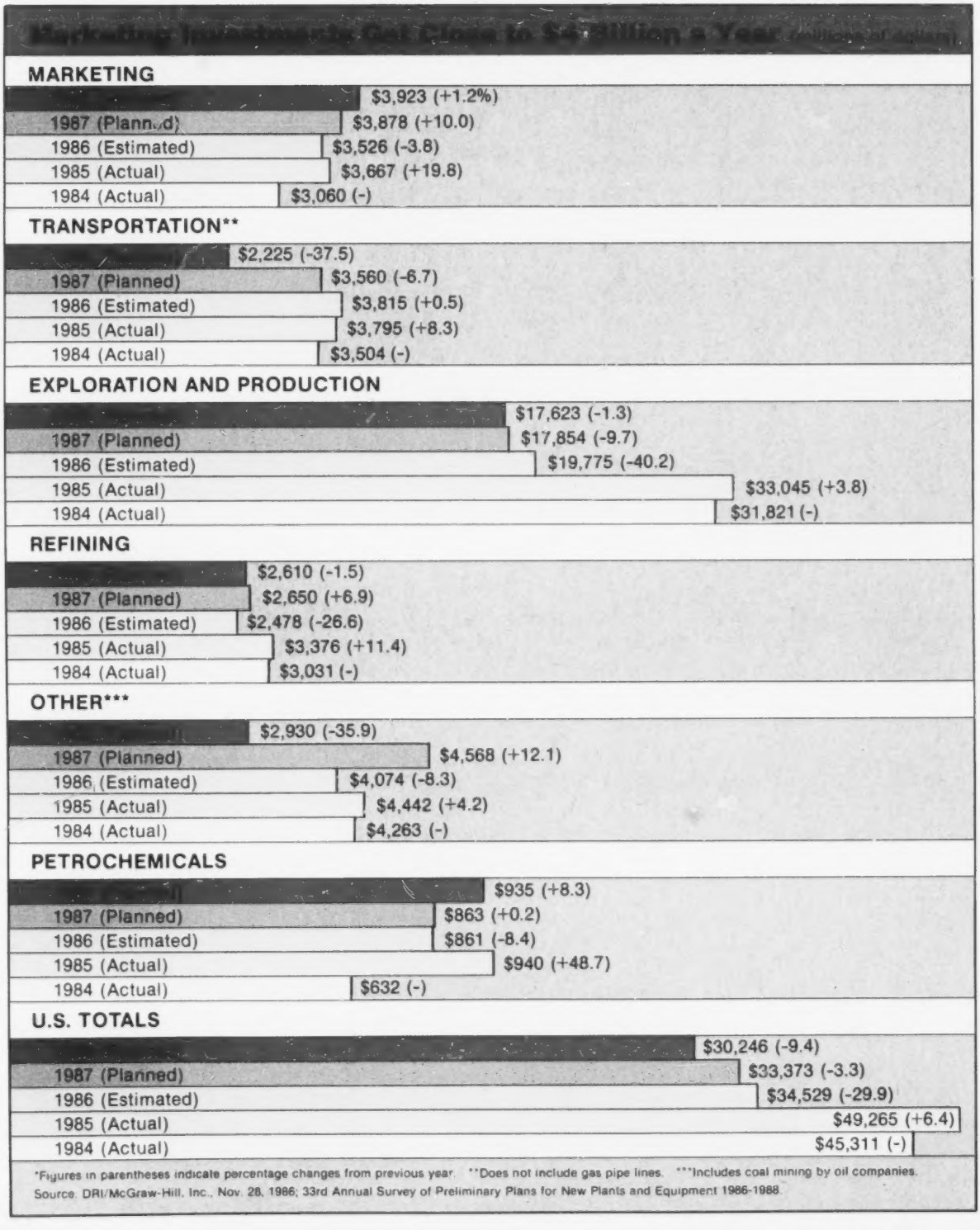
The service station population also skidded some more in both 1986 and 1987 projections. The rate of decline, according to the federal report, is expected to be less in 1987 than in 1986; nevertheless, the population figure will be under 120,000 later this year for the first time since the 1960s. N:N

Quarterly Averages

1986				1987			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
6.64	7.09	7.32	7.04	6.67	7.17	7.14	7.00
2.15	2.27	2.24	2.03	1.83	1.88	1.79	1.67
4.49	4.82	5.08	5.02	4.84	5.29	5.35	5.33
67.6%	68.0%	69.4%	71.3%	72.6%	73.8%	75.0%	76.1%
3.28	2.73	2.54	3.05	3.30	2.88	2.78	3.18
1.42	1.34	1.37	1.40	1.23	1.21	1.16	1.40
16.06	**15.86**	**16.08**	**16.59**	**16.19**	**16.15**	**16.39**	**16.73**
$1.10	$ .93	$ .87	$ .86	$ .90	$ .97	$1.02	$1.02
1.04	.87	.77	.80	.86	.89	.93	.97
.61	.44	.39	.44	.48	.50	.51	.55
.97	.77	.64	.68	.75	.77	.80	.87
.47	.31	.29	.36	.38	.37	.39	.41

Source: Energy Information Administration, Short-term Energy Forecast, November 1986.

Tax, lead phaseout and Stage II headaches loom.


Marketing Investments Get Close to $4 Billion a Year (Millions of dollars)
MARKETING
$3,923 (+1.2%)
1987 (Planned) $3,878 (+10.0)
1986 (Estimated) $3,526 (-3.8)
1985 (Actual) $3,667 (+19.8)
1984 (Actual) $3,060 (-)
TRANSPORTATION**
$2,225 (-37.5)
1987 (Planned) $3,560 (-6.7)
1986 (Estimated) $3,815 (+0.5)
1985 (Actual) $3,795 (+8.3)
1984 (Actual) $3,504 (-)
EXPLORATION AND PRODUCTION
$17,623 (-1.3)
1987 (Planned) $17,854 (-9.7)
1986 (Estimated) $19,775 (-40.2)
1985 (Actual) $33,045 (+3.8)
1984 (Actual) $31,821 (-)
REFINING
$2,610 (-1.5)
1987 (Planned) $2,650 (+6.9)
1986 (Estimated) $2,478 (-26.6)
1985 (Actual) $3,376 (+11.4)
1984 (Actual) $3,031 (-)
OTHER***
$2,930 (-35.9)
1987 (Planned) $4,568 (+12.1)
1986 (Estimated) $4,074 (-8.3)
1985 (Actual) $4,442 (+4.2)
1984 (Actual) $4,263 (-)
PETROCHEMICALS
$935 (+8.3)
1987 (Planned) $863 (+0.2)
1986 (Estimated) $861 (-8.4)
1985 (Actual) $940 (+48.7)
1984 (Actual) $632 (-)
U.S. TOTALS
$30,246 (-9.4)
1987 (Planned) $33,373 (-3.3)
1986 (Estimated) $34,529 (-29.9)
1985 (Actual) $49,265 (+6.4)
1984 (Actual) $45,311 (-)
*Figures in parentheses indicate percentage changes from previous year. **Does not include gas pipe lines. ***Includes coal mining by oil companies.
Source: DRI/McGraw-Hill, Inc., Nov. 26, 1986; 33rd Annual Survey of Preliminary Plans for New Plants and Equipment 1986-1988